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Market Brief - Product

Sweden: Organic Products

Stockholm, Sweden

Summary
The market for organic foods in Sweden is expanding quickly. The annual growth rate is estimated to 25-30% percent. Still the organic food market only accounts for 1-1,5 percent of the total food market. Nowadays, the distribution of organic foods differs very little from the distribution of other foods, meaning that most organic products are sold in supermarkets.

There are several regulations and market requirements that have to be fulfilled. Remarkable for the Swedish market (quite different to most other European Markets) is the very strong position of a private certification label - KRAV. Although not a legal requirement, KRAV certification is almost indispensable for marketing organic products in Sweden.

Definitions and terms

Organic agriculture is well defined in the IFOAM Basic Standards for organic agriculture, the Codex Alimentarius Guidelines, the EEC regulation 2092/91 and the Organic Food Production Act of the USA. Although details will differ in these definitions they all relate to an agricultural production system that is based on natural processes and object to use of agro-chemicals. In Sweden the term ”ekologisk” (= ecological) is the normal term for what in the USA is called ”organic”. In many cases ”KRAV-certified” or ”KRAV approved” will be more easily understood than ”ekologisk”.

The market

History

The organic market is Sweden has developed rapidly from the early eighties. At that time organic sales were confined to farm shops and special health food shops. In 1983 the first large-scale supermarket sales of organic products started based on a close co-operation between the organic farmers’ marketing co-operative - Samodlarna and the consumer co-operative Konsum chain. At that time the product range was constituted by simple unprocessed foods like vegetables, potatoes and flours and flakes. The establishment of an independent certification mechanism and a distinct labeling of organic products (KRAV) in 1985 made a further expansion possible.

Current situation

Consumer surveys

A number of consumer surveys have been conducted regarding organic foods.

All reflect a strong inclination by the consumers to buy organic foods. A small proportion (>5%) of the consumers will by organic foods even with very high premium prices and low availability, and a large proportion (>50%) will buy organic foods if these are of good quality, easily available and to reasonable premium prices (5-10%). About 25% of consumers claim that they regularly buy organic products and 66% that they do it occasionally[1].

The Swedish organic consumer

The Swedish organic consumer differs little from the average Swedish consumer. Well-educated females would be the most enthusiastic group, while men between age 40-60 are the least interested. The Swedish organic consumer is less oriented to ”Natural” or ”Healthy” than their counterparts in continental Europe. In Sweden there is a good market for products like organic white bread or organic white (refined) sugar, while these products are very difficult to market in e.g. Germany.

Retail market

All major retailers are distributing organic products. The market shares differ a lot between the retailers and in different areas. The product groups that have reached highest market shares are vegetables, grain products, milk and baby food, but the development is rapid in most areas. Meat sales are not very well developed, due to lack of supply.

Gröna Konsum - consumer co-operative retail chain with 450 shops. Gröna Konsum claims to have the highest share of organic foods in any supermarket chain in Europe: four percent. They have been pioneers and are currently substituting the best selling bread to a fully organic version. KF has developed the ”Änglamark” private brand for organic products for all the chains affiliated to the consumer co-operative movement (Gröna Konsum, Konsum, OBS, B&W etc.).

ICA - shop owners’ co-operative with 2100 shops - the largest retail chain in Sweden has the goal to have 10% organic products by the year 2000. Market shares for different categories of products 1997 were:

Product group	Percent sales
Flour	3
Müsli	4
Coffee	1
Baby food	7
Frozen	1-3%

[1] It is quite clear that willingness to buy organic products is much bigger in surveys than in reality.

Fruit and vegetables	2
-carrots	10
-potatoes	3

A rather high proportion of sales occur under the private brand ”Sunda”.
In the ICA shops there are big differences between the shop in what extent they are supplying organic products, since the product range is not centrally decided. Basically it depends on the interest of the individual shop owner.

The small chain Hemköp (90 shops) has last year made major efforts to become a leader in the marketing of organic products.

Most other retailers, including many convenient stores, will have a limited supply of organic foods.

Restaurants, catering

This sector is less developed than the retail market, but last year there has been a strong development. Some examples:

27 percent of the municipalities have started to serve organic foods in schools or hospitals. An additional 33% are planning to start. This doesn’t mean that they serve only organic foods, but that some organic products are purchased.

McDonald’s in Sweden has changed all their milk to organic as well as all the coffee. They also buy organic meat, but there is not a sufficient supply to service their full requirement.

The train restaurant cars are serving organic coffee and milk and occasionally organic dishes.

An organic restaurant chain - Meaning Green is opening 7 restaurants in Sweden autumn 1998. They have plans to establish themselves in Europe and the USA.

Limiting factors

There are several factors that are limiting the market for organic products among others:
limited supply
high prices
wrong qualities

Production, distribution and trade channels

Product Range

KRAV publishes a catalogue of all certified products, in total more than 1 500 products.

Farming

The Swedish production of organic products has increased very rapidly, see Annex 4 (can be obtained from FAS/Stockholm upon request). The KRAV certified acreage now represents 4 percent of Swedish farmland. In addition to that there is another 3 percent of the land that gets support for organic production without being certified, meaning that in total there is more than 7 percent organic agriculture in Sweden. The proportion of the production will be considerably lower because:

the proportion organic is high (up to 20%) in the extensive areas and low (down to 1,5%) in the more intensive areas in the South

the organic production of chicken and pork is very small

the yield levels on organic farms are lower than on conventional farms.

Further data for the Swedish organic production is found in Annex 4 (can be obtained from FAS/Stockholm upon request).

Marketing primary products

Vegetables and potatoes are marketed either directly from the growers to distributors, or more commonly through the organic co-operative Samodlarna. Milk is sold to (conventional) dairy co-operatives. Eco Trade, a company owned by the farmers co-operative buys almost all grains. Most meat will be sold to Scan, also a farmers co-operative.

State support

Governmental policies have been favorable to organic production for a decade. In 1989 there was a conversion support for organic producers. Then again a small support scheme was introduced 1994. In 1994 the Parliament also decided that 10% of agricultural land should be organic by the year 2000. With Sweden's European Union membership in 1995 Swedish Farmers have since benefited from the Agri-Environmental scheme of the EU, giving farmers subsidies in the range of 700-1500 SEK/ha for organic production.

Limiting factors for the primary production

In the pig and poultry sector the major hurdle is for the producers to be able to fulfil the organic

standards, especially animal welfare standards and limitations in medication. Even if there is a market, most of the producers are afraid of taking the risks involved or assume costly rebuilding of stables and other investments needed to comply with the standards.
Also in fruit production technical difficulties (pests) are limiting.

Processors

Almost all major food processors in Sweden have taken up organic products. KRAV has almost 500 processing units within its control. Some examples:

Wheat flour from the major mills has been available since mid eighties.

The market leading crisp bread manufacturer Wasa (owned by Sandoz) started organic crisp bread in the early nineties.

The company with the largest share of total organic production is the dairy firm Arla (with approx. 60% of the total Swedish milk market). A total of 3.5% of all milk they sold 1997 was organic. In some regions organic milk is over 10%. Because of lack of raw materials the range of products has not been so large, but they are now offering butter, cheeses and some yogurts.

The company Göteborgskex- market leader in biscuits and wafers - introduced organic ”Digestive” June 1997. It had by April 1998 taken 15% of the market. The organic sales came on top of the earlier sales, resulting in a total expansion of sales.

Danisco, a Danish company having monopoly in the Swedish and Danish sugar production, has had an organic sugar project (from beet root) for four years. Because of supply problems they have increased the organic premium to the growers from 50% to 80%.

All but one of the Swedish coffee roasters are marketing organic coffee.

Specialized organic companies

Initially specialized companies did all organic processing. Some of these companies have developed themselves along with the development of the market and has managed to keep a large market share, even after the entrance of large companies in the market.

Limiting factors in organic food processing

The organic standards themselves limit the use of certain additives and processing aids and methods, which may be a restriction. The requirements for separation of organic and conventional products may also create problems. The major problem in most sectors is still the lack of reliable sources of raw materials.

Wholesalers

Significant for the Swedish market is the high degree of integration in the daily consumption goods trade and distribution. Three organizations, ICA, KF and Dagab control around 80% of the market. All major wholesalers will offer organic products to their clients.

There are also some specialized ”organic” wholesalers. Most important of these are Biodynamiska Produkter, Kung Markatta and Samodlarna. The specialized organic wholesalers have played an important role for the development of the organic market, especially Samodlarna.

Imports

Imports of organic products have been taking place for more than a decade. The imports are oriented to products that are not produced or not available in sufficient quantity in Sweden. In the pioneer phase all imports went through a couple of specialized firms, but currently organic imports are often taking the same channels as non-organic products. Major exporting countries to the Swedish market are the Netherlands, Denmark, Italy, USA, Israel and Argentina. American organic products that have been imported for a longer time are raisins, seeds, beans, small grains and apples.

Main importers are

Company	Products
ASK centralen	Fresh produce
Banankompaniet	Bananas
Biodynamiska Produkter	Processed Food, Fresh produce, Grains
Dagab Unil AB	Processed food
Direkt Frukt och Grönt	Fresh produce
Eco Trade	Grains
ICA F&G / Viking Fruit	Fresh produce
ICA Handlarnas AB	Processed food
Karlshamn Sweden AB	Oil seeds, oils
KDAB	Processed Food
Kung Markatta	Processed Food, Cereals
Samodlarna	Fresh produce, processed food, wine

A list of all KRAV-certified importers is found in Annex 1 b (can be obtained from FAS/Stockholm upon request).

Exports

Sweden in currently a net importer of organic products. Exports of grain, mainly oats, rye and wheat has been going on for a longer time. In 1997 40% of the grain was exported, while in 1998 domestic consumption and production are likely to be in approximate balance . Other products that are exported are crisp bread, marmalades, pork meat and UHT-milk. Major export markets are Denmark and United Kingdom.

Trade Margins and Pricing Structure

Premium prices

Almost all organic products come with price premiums. The following tables of such premium prices will give an indication of these margins. For processed products a comparison is more difficult to make since pricing is less transparent and products more difficult to compare. Generally there will be less price difference for processed products.

For some of the agricultural products, especially milk the producer prices are linked to the conventional prices with a fixed premium in crowns or percent. For other products like grains most of the production is contracted in advance with an agreed price. For other products, especially fruits and vegetables, prices fluctuate considerably.

For processed products there is a wide and divergent band in the pricing. Some products may have more or less the same price in organic or conventional quality, and occasionally they are cheaper. This is especially the case for products with low costs for raw materials. Sometimes also the pricing policy of the retailers may favor an organic product. Other products may be very costly.

Consumer prices of a sample of processed products (June 1998)

Product	KRAV-certified (SEK/Unit)	Conventional (SEK/Unit)
Orange marmalade	(320g) 20.90	(360g) 19.00
Peanut butter	(360g) 40.00	(340g) 28.80
Ketchup (500g)	16.50	12.50
Apples Golden 1kg	35.50	17.90
Cheese 1kg	81.00	73.00
Yogurt 1l	20.90	16.90
Frozen Broccoli 500g	28.50	11.90
Frozen peas 500g	14.90	14.90
Hamburgers 1kg	98.00	61.25
Bread ”formbröd” 1kg	31.25	31.25
Bread ”grovt” 1kg	33.60	29.80
Biscuits, ”digestive” 400g	19.50	16.90
Corn Flakes 500g	19.90	20.50
Canned tomatoes 400g	9.90	4.40
Spaghetti	14.90	10.90
Coffee 500g	39.90	33.90

The prices are from shops of the Hemköp and the Gröna Konsum chains

Producer prices and consumer premium prices for agricultural products (June 1998)

Product	Producer price (SEK/kg)	Producer Premium price	Consumer Premium Price
Milk		25%	15-25%
Carrots		20-80%	20-100%
Pork		50-100%	30-50%
Beef		+3-5 SEK/kg	
Wheat	1,40-1,80		
Rape seed	3,50		
Bananas			0-50%

Packaging and labeling

Organic products must adhere to the same requirements as conventional production. In addition they must comply with the EU regulation 2092/91. If they are to be certified by KRAV they also will have to follow KRAV standards. Products with a content of organic raw materials above >95% can be called ”organic”[2]. Products with 70-95% organic ingredients can be marketed as ”made with organic ingredients” with a clear indication of the percentage organic ingredients on the principal display panel. The EU regulation and KRAV however define the percentage in different ways. In the EU calculation it is the percentage of ingredient of agricultural origin that is calculated while the KRAV standards base their calculations on total percentage (additives and everything included).

KRAV standards do not allow the use of PVC or other materials that may contaminate the products. The EEC 2092/91 has no such regulation.

All organic products sold on the consumer market must have the indication of the importer (when imported) and the responsible control body.

KRAV standards also require that the country of origin for the raw materials as well as the country of preparation must be indicated.

Apart from the specific organic standards, there is no indication that organic products need to have any special packaging features or sizes.

Textile and fibers

The focus on this brief is the food sector. The market for organic textiles and fibers is less developed. Swedish companies do play a rather important role in the international organic textile market. Organic cotton and flax production is organized by Swedish companies in several countries, and US organic cotton has been imported during several years. A high share of the production is re-exported to Germany, Japan and other markets. KRAV is certifying about 1/10 of the world production of organic cotton.

[2] the EEC 2092/91 actually restricts the right to call the product itself organic, but this is apparently not respected in the market place

Standards, regulations and certification

Regulations

EEC 2092/91

The EEC regulation 2092/91 lays down the legal framework for products marketed as organic. These also apply to imports.

An imported product can be approved in two main ways:
Certification by a country/organization accepted by the EU.

Such countries and organizations are listed on a list established by the European Commission. Currently there are only organizations in Argentina, Australia, Israel Hungary and Switzerland. American certification programs have been trying to be accepted by the EU for years without success.

Re-certification by an EU member state

Through this option an importer shall demonstrate to the authorities in the member states that the product fulfils the requirements of the EEC 2092/91 both regarding standards for production and inspection and certification requirements. Theoretically this approval will be for each lot of imports, but in practice this has been handled more flexible. The majority of imports to the EU come through this option. Initially this was seen as a temporary provision until a sufficient number of countries had been approved according to the procedures above, but this provision has just been prolonged and will probably remain for several years.

The import regulations have been changed frequently, and one may assume that for another couple of years there will be quite some problems in this area. It is clear that the EU member states are handling the regulation differently. The Swedish procedures for import approval are not yet (June 1998) finalized.

Customs Tariffs

There are no special tariffs for organic products compared to other products.[3]

[3] There is a development within the EU of a system for ”Green GSP” (General System of Preferences), which if ever implemented would give ”green” products a preferential treatment. This has been discussed related to tropical timber (from certified timber production) and organic products. The future development is however not at all sure.

Private standards

KRAV

KRAV is a private certification system. Behind KRAV stand major organizations of producers, food processors and retailers as well as environmental, consumer and animal welfare groups. Many buyers and/or consumers will only buy an organic product if it is certified by KRAV. From a legal perspective there is no need for imported products to be certified by KRAV, but from a market perspective it is more or less a prerequisite. Only a few percent of the organic products on the Swedish market don't have KRAV certification.

KRAV has both standards and inspection and certification. On the production standards level KRAV standards are based on IFOAM standards and are also complying with the EU regulation 2092/91, but there are areas where they are stricter[4].

To become certified by KRAV

KRAV certification is also accessible for non-Swedish production in various ways:

Through an importer

With this system a Swedish importer will ask for re-certification by KRAV of products that are certified by another certification program KRAV has recognized.

Through the Foreign Licensee Program

With this system a producer outside Sweden that is certified by a recognized certification program can sign a licensing contract with KRAV and get direct certification

By direct inspection and certification of the production. This is carried out by the subsidiary GroLink AB. GroLink AB operates in various countries in the world.

The regulations are further described in Annex 2 (can be obtained from FAS/Stockholm upon request).

KRAV's recognition of other certification programs

KRAV is basing its acceptance of other certification programs on IFOAM Accreditation. (office in the USA). There are procedures also for acceptance of products certified by other certification programs, but in general this is more complicated and potentially costly. A list of certification programs that is accepted by KRAV is found in Annex 3 (can be obtained from FAS/Stockholm upon request).

[4] There is no possibility to elaborate on all differences in the various standards in this brief.

Future development and trends

There is no doubt that the sales of organic products will continue to grow. The major retailers in Sweden are all having clear aims to increase the sales of organic products. ICA, KF and Hemköp have the target that 10% of their sales should be organic by the year 2000. This will not be accomplished by that date, primarily because of lack of supply.

Substitution

To substitute a product with an organic version is already practiced by some retailers. This has been done with big products like bread, but also will specialty products. In the case of catering etc. this is even more likely to be the rule.

Ethics

Current organic standards are only ”ethical” regarding how man treats the soil and the animals, while the social behavior of the producer or the trade is not regulated. There is a trend to incorporate these aspects in organic standards. KRAV has already started to do so to a limited extent. Regardless if aspects of social behavior and Fair Trade will be incorporated in organic standards or not, one may assume that the future organic consumer will also ask for such things.

Wider range of products

There is a development where the scope of organic standards is expanded in new areas. As such can be mentioned

Fish - KRAV has already standards for salmon farming and is in the process of developing standards for other species as well as for ”wild” fish.

Leather - KRAV is in the process of developing organic leather standards

Market Prospects and Business Opportunities

In general, the organic market does not differ dramatically from other markets; although the standards for organic production will limit the possibilities for some processed foods that may be dependant on the use of certain additives or technologies not allowed in organic production. Apart from that a producer that has competitive production in the ”conventional” market is likely to be competitive also in the organic market.

Potential for exports of products from the USA

Based on the current supply, the general conditions for US exports to Europe and interviewed retailers and distributors, the following products or product groups have been identified as especially interesting for development:

-animal feed stuffs (Soya, flaxseed etc.)
-chocolate and other candy
-fresh fruit and vegetables
-oils and oil seed
-snacks
-soft drinks
-spreads, peanut butter
-wine

Annexes

Addresses
Organizations
List of KRAV-certified importers
KRAV regulations for certification of imports
List of certification programs recognized by KRAV
KRAV certified production

Annex 1 Addresses

a. Organizations

	Telephone Fax	E-mail WWW
GroLink AB Torfolk 684 95 Höje Sweden	0563-72345 0563-72066	info@grolink.se www.grolink.se
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